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FISCAL IMPACT STATEMENT

LS 6146 **NOTE PREPARED:** Dec 30, 2006
BILL NUMBER: HB 1369 **BILL AMENDED:**

SUBJECT: Veterans' and Surviving Spouses' Deduction.

FIRST AUTHOR: Rep. Stevenson BILL STATUS: As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill extends eligibility for the property tax deduction for World War I veterans and surviving spouses to all veterans who serve in the United States armed forces in any war or perform equally hazardous duty.

Effective Date: July 1, 2007.

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this proposal and subject to appropriation, annual state PTRC and homestead payments will be reduced. The state savings in CY 2009 is estimated at approximately $33 M for PTRC and $16 M for Homestead Credit, for a total of $49 M. The total state savings is estimated at $19 M in FY 2009 (partial year) and approximately $49 M in FY 2010. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The revenue reduction is estimated at about $136,000

Explanation of Local Expenditures: Forty-three counties currently provide additional homestead credits that are paid with proceeds from the local option income taxes (LOIT). These credits will decline by approximately $2.4 M in CY 2009. LOIT proceeds that are not used for county homestead credits are distributed to civil taxing units as certified shares.

Explanation of Local Revenues: Under current law, WW I veterans and surviving spouses may receive an assessed value (AV) deduction on their principal residence equal to $18,720. In order to qualify, the assessed value of a veteran's home may not exceed $163,000.

This bill would enable veterans who serve in the United States armed forces in any war or perform equally hazardous duty, and receive an other than dishonorable discharge to qualify for the $18,720 deduction against the AV of their principal residence. This deduction would also extend to the surviving spouse of a war or hazardous duty veteran. The $163,000 AV limit on the residence would continue to apply to a veteran's home. Using estimates from the U.S. Department of Veterans Affairs and the Census Bureau, there are approximately 302,000 veteran and surviving spouse households that would qualify for this deduction in 2008.

It is estimated that qualifying veterans and surviving spouses will pay approximately $75 M less in taxes in CY 2009 for an average net tax reduction of $247 per household. At $18,720 per qualifying veteran household, this deduction will potentially reduce the tax base by $5.7 B AV.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. A $5.7 B AV reduction in assessed value would cause a $0.04 increase in the statewide average gross tax rate in CY 2009. This translates to a property tax shift to all other classes of property of approximately $88 M. This number exceeds the $75 M in tax savings to veteran households because the tax base for all other classes of property includes some property that does not qualify for homestead credits or school general fund PTRC. Veteran households, on the other hand, comprise only homesteads which qualify for these credits.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance; State Fair Board; DNR Division of Forestry.

Local Agencies Affected: County Auditors.

Information Sources: U.S. Department of Veterans Affairs; Bureau of the Census; Local Government Database.

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